

# **COLLEGE OF THE SEQUOIAS COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session,  
and Chapter 1118, Statutes of 1987

*July 1, 2002, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

May 2008



**JOHN CHIANG**  
**California State Controller**

May 21, 2008

John Zumwalt, President  
Board of Trustees  
College of the Sequoias Community College District  
915 South Mooney Boulevard  
Visalia, CA 93277

Dear Mr. Zumwalt:

The State Controller's Office audited the costs claimed by the College of the Sequoias Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005.

The district claimed \$661,879 for the mandated program. Our audit disclosed that \$349,931 is allowable and \$311,948 is unallowable. The unallowable costs resulted because the district claimed unsupported salaries and benefits and unallowable athletic insurance costs; overstated allowable indirect costs; and understated authorized health service fees. During the audit, we provided the district an opportunity to conduct a time study to support the unallowable salaries and benefits. However, the district declined to perform a time study. The State paid the district \$203,581. Allowable costs claimed exceed the amount paid by \$146,350.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: Rod Frese, Ph.D., Vice President  
Administrative Services  
College of the Sequoias Community College District  
Leangela Garcia  
Categorical Accounting Officer  
College of the Sequoias Community College District  
Linda McCauley  
Chief Accounting Officer  
College of the Sequoias Community College District  
Marty Rubio, Specialist  
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Jeannie Oropeza, Program Budget Manager  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the College of the Sequoias Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2005.

The district claimed \$661,879 for the mandated program. Our audit disclosed that \$349,931 is allowable and \$311,948 is unallowable. The unallowable costs resulted because the district claimed unsupported salaries and benefits and unallowable athletic insurance costs; overstated allowable indirect costs; and understated authorized health service fees. During the audit, we provided the district an opportunity to conduct a time study to support the unallowable salary and benefit costs. However, the district declined to perform a time study. The State paid the district \$203,581. Allowable costs claimed exceed the amount paid by \$146,350.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session (E.S.) repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the same level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit under the authority of Government Code sections 12410, 17558.5, and 17561. We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, except as regards the following issue. We were unable to assess fraud risk because the district did not respond to our inquiries regarding fraud risk assessment. The district did not respond based on its consultant's advice. As a result, we increased our substantive testing; however, the increased substantive testing would not necessarily identify any fraud or abuse that may have occurred.

We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the College of the Sequoias Community College District claimed \$661,879 for costs of the Health Fee Elimination Program. Our audit disclosed that \$349,931 is allowable and \$311,948 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State paid the district \$203,581. Our audit disclosed that \$80,334 is allowable. The State will offset \$123,247 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$76,975 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$192,622 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on March 26, 2008. We contacted Leangela Garcia, Categorical Accounting Officer, by e-mail on April 28, 2008. Ms. Garcia declined to respond to the draft report.

**Restricted Use**

This report is solely for the information and use of the College of the Sequoias Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

May 21, 2008

# Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2005

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 210,475	\$ 188,546	\$ (21,929)	Finding 1
Services and supplies	63,990	42,960	(21,030)	Finding 2
Subtotal	274,465	231,506	(42,959)	
Less costs of services that exceed services provided in FY 1986-87	(1,704)	(1,704)	—	
Total direct costs	272,761	229,802	(42,959)	
Indirect costs	72,718	34,378	(38,340)	Finding 3
Total direct and indirect costs	345,479	264,180	(81,299)	
Less authorized health service fees	(135,433)	(177,381)	(41,948)	Finding 4
Less offsetting revenues/reimbursements	(6,465)	(6,465)	—	
Total program costs	<u>\$ 203,581</u>	80,334	<u>\$ (123,247)</u>	
Less amount paid by the State		(203,581)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (123,247)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 174,127	\$ 159,715	\$ (14,412)	Finding 1
Services and supplies	76,404	44,938	(31,466)	Finding 2
Subtotal	250,531	204,653	(45,878)	
Less costs of services that exceed services provided in FY 1986-87	(1,773)	(1,773)	—	
Total direct costs	248,758	202,880	(45,878)	
Indirect costs	67,040	35,869	(31,171)	Finding 3
Total direct and indirect costs	315,798	238,749	(77,049)	
Less authorized health service fees	(132,801)	(159,078)	(26,277)	Finding 4
Less offsetting revenues/reimbursements	(2,696)	(2,696)	—	
Total program costs	<u>\$ 180,301</u>	76,975	<u>\$ (103,326)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 76,975</u>		



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 237,823	\$ 220,469	\$ (17,354)	Finding 1
Services and supplies	86,158	51,382	(34,776)	Finding 2
Subtotal	323,981	271,851	(52,130)	
Less costs of services that exceed services provided in FY 1986-87	(985)	(985)	—	
Total direct costs	322,996	270,866	(52,130)	
Indirect costs	103,068	96,645	(6,423)	Finding 3
Total direct and indirect costs	426,064	367,511	(58,553)	
Less authorized health service fees	(144,673)	(171,495)	(26,822)	Finding 4
Less offsetting revenues/reimbursements	(3,394)	(3,394)	—	
Total program costs	<u>\$ 277,997</u>	192,622	<u>\$ (85,375)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 192,622</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 622,425	\$ 568,730	\$ (53,695)	
Services and supplies	226,552	139,280	(87,272)	
Subtotal	848,977	708,010	(140,967)	
Less costs of services that exceed services provided in FY 1986-87	(4,462)	(4,462)	—	
Total direct costs	844,515	703,548	(140,967)	
Indirect costs	242,826	166,892	(75,934)	
Total direct and indirect costs	1,087,341	870,440	(216,901)	
Less authorized health service fees	(412,907)	(507,954)	(95,047)	
Less offsetting revenues/reimbursements	(12,555)	(12,555)	—	
Total program costs	<u>\$ 661,879</u>	349,931	<u>\$ (311,948)</u>	
Less amount paid by the State		(203,581)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 146,350</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Unallowable salaries and benefits**

The district claimed unallowable salaries and benefits totaling \$53,695. The district did not provide adequate documentation to support the claimed costs.

The district claimed salaries and benefits for nursing and psychology faculty, academic counselors, and disabled student programs and services staff. The district claimed these costs based on estimated hours that its health services coordinator provided after each fiscal year ended. The district did not provide any contemporaneous source documentation to support the hours claimed or services provided. During the audit, we provided the district an opportunity to perform a time study to support the unallowable salary and benefit costs. However, the district declined to perform a time study.

The program's parameters and guidelines require districts to describe the mandated functions performed and specify the actual number of hours devoted to each function. Districts may claim an average number of hours devoted to each function if supported by a documented time study. The parameters and guidelines also state, "All costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs."

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Salaries	\$ (17,331)	\$ (11,383)	\$ (13,722)	\$ (42,436)
Benefits	(4,598)	(3,029)	(3,632)	(11,259)
Audit adjustment	<u>\$ (21,929)</u>	<u>\$ (14,412)</u>	<u>\$ (17,354)</u>	<u>\$ (53,695)</u>

### Recommendation

We recommend that the district maintain contemporaneous source documentation that supports the actual mandate-related hours worked and identifies the services provided.

### District's Response

This district did not respond to the audit finding.

**FINDING 2—  
Unallowable services  
and supplies**

The district claimed unallowable services and supplies totaling \$87,272. The unallowable costs are attributable to athletic insurance and professional liability insurance costs that the district claimed as student insurance costs. The district acknowledged that it erroneously claimed the professional liability insurance costs as student insurance costs.

Athletic insurance costs are not reimbursable under the mandated program. Education Code section 76355, subdivision (d)(2), states that authorized expenditures shall not include athletic trainers' salaries, athletic insurance, medical supplies for athletics, physical examinations for intercollegiate athletics, ambulance services, and the salaries of health professionals for athletic events.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Student insurance:				
Allowable costs	\$ 25,992	\$ 34,194	\$ 36,049	\$ 96,235
Less costs claimed	<u>(47,022)</u>	<u>(65,660)</u>	<u>(70,825)</u>	<u>(183,507)</u>
Audit adjustment	<u>\$ (21,030)</u>	<u>\$ (31,466)</u>	<u>\$ (34,776)</u>	<u>\$ (87,272)</u>

Recommendation

We recommend that the district claim only those costs that are reimbursable under the mandated program.

District's Response

This district did not respond to the audit finding.

**FINDING 3—  
Unallowable indirect  
costs**

The district claimed unallowable indirect costs totaling \$75,934. The district overstated its indirect cost rates for fiscal year (FY) 2002-03 and FY 2003-04, and understated its indirect cost rate for FY 2004-05. In addition, the district claimed indirect costs attributable to the unallowable costs that we identified in Findings 1 and 2 of this report.

For FY 2002-03 and FY 2003-04, the district prepared its indirect cost rate proposals (ICRPs) in accordance with Office of Management and Budget (OMB) Circular A-21. However, the district did not obtain federal approval for these ICRPs.

For FY 2004-05, the district prepared its ICRP using the SCO's FAM-29C alternative methodology. However, the district did not complete the FAM-29C in accordance with the SCO's claiming instructions. The district did not use its FY 2004-05 California Community Colleges Annual Financial and Budget Report (CCFS-311) to prepare the FAM-29C ICRP. In addition, the district did not allocate costs between the direct and indirect cost categories as the claiming instructions specify.

The parameters and guidelines state, “Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.” The SCO’s claiming instructions state that districts must obtain federal approval for an ICRP prepared in accordance with OMB Circular A-21. Alternatively, the district may compute an indirect cost rate using Form FAM-29C, which is based on total fiscal year expenditures that the district reports in the CCFS-311.

For each fiscal year, we calculated allowable indirect cost rates based on the FAM-29C alternative methodology that the claiming instructions allow. The following table summarizes the audit adjustment based on the allowable direct costs claimed and allowable indirect cost rates:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable direct costs claimed	\$ 229,802	\$ 202,880	\$ 270,866	
Allowable indirect cost rate	× 14.96%	× 17.68%	× 35.68%	
Allowable indirect costs	34,378	35,869	96,645	
Less indirect costs claimed	(72,718)	(67,040)	(103,068)	
Audit adjustment	\$ (38,340)	\$ (31,171)	\$ (6,423)	\$ (75,934)

#### Recommendation

We recommend that the district claim indirect costs based on indirect cost rates calculated according to the SCO’s claiming instructions. The district must obtain federal approval when it prepares its ICRP according to OMB Circular A-21. Alternatively, the district must prepare its ICRP using the SCO’s alternative methodology identified in the claiming instructions.

#### District’s Response

This district did not respond to the audit finding.

#### **FINDING 4— Understated authorized health service fees**

The district understated its reported authorized health service fees by \$95,047.

For FY 2002-03, the district reported actual health service fee revenue that it collected rather than authorized health service fees. For FY 2003-04 and FY 2004-05, the district calculated authorized health service fees based on the number of students who were subject to health service fees. However, the number of students that the district reported on its mandated cost claims did not agree with data that the district reported to the California Community Colleges Chancellor’s Office (CCCCO).

Mandated costs do not include costs that are reimbursable from authorized fees. Government Code section 17514 states that “costs mandated by the state” means any increased costs that a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

For the audit period, Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. The CCCC identified the fees authorized by Education Code section 76355, subdivision (a). For FY 2002-03 and FY 2003-04, the authorized fees were \$12 per semester and \$9 per summer session. For FY 2004-05, the authorized fees were \$13 per semester and \$10 per summer session.

We obtained student enrollment and Board of Governors Grant (BOGG) recipient data from the CCCC. We calculated total authorized health service fees using the authorized health service fee rates that the CCCC identified.

The following table shows the authorized health service fees and audit adjustment:

	Semester			
	Summer	Fall	Spring	Total
<u>Fiscal Year 2002-03</u>				
Number of enrolled students	4,144	11,820	11,245	
Less number of BOGG recipients	(1,859)	(5,087)	(4,910)	
Subtotal	2,285	6,733	6,335	
Authorized health fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (20,565)</u>	<u>\$ (80,796)</u>	<u>\$ (76,020)</u>	\$ (177,381)
Less authorized health service fees claimed				135,433
Audit adjustment, FY 2002-03				<u>(41,948)</u>
<u>Fiscal Year 2003-04</u>				
Number of enrolled students	2,903	11,282	10,379	
Less number of BOGG recipients	(1,349)	(5,007)	(4,563)	
Subtotal	1,554	6,275	5,816	
Authorized health fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (13,986)</u>	<u>\$ (75,300)</u>	<u>\$ (69,792)</u>	(159,078)
Less authorized health service fees claimed				132,801
Audit adjustment, FY 2003-04				<u>(26,277)</u>
<u>Fiscal Year 2004-05</u>				
Number of enrolled students	3,207	10,900	10,056	
Less number of BOGG recipients	—	(5,276)	(4,955)	
Subtotal	3,207	5,624	5,101	
Authorized health fee rate	× \$ (10)	× \$ (13)	× \$ (13)	
Authorized health service fees	<u>\$ (32,070)</u>	<u>\$ (73,112)</u>	<u>\$ (66,313)</u>	(171,495)
Less authorized health service fees claimed				144,673
Audit adjustment, FY 2004-05				<u>(26,822)</u>
Total audit adjustment				<u>\$ (95,047)</u>

**Recommendation**

We recommend that the district deduct authorized health service fees from mandate-related costs claimed. The district should maintain records that support its calculation of authorized health service fees. These records should identify the actual non-duplicated student enrollment and students who are exempt from health service fees under Education Code section 76355, subdivision (c).

**District's Response**

This district did not respond to the audit finding.

**State Controller's Office  
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Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**